

CITY OF SUMNER
FINANCIAL STATEMENTS
JUNE 30, 2013

CITY OF SUMNER

INDEPENDENT AUDITOR'S REPORT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**AUDITOR'S REPORT ON COMPLIANCE,
COMMENTS AND RECOMMENDATIONS**

JUNE 30, 2013

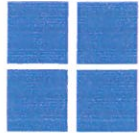
City of Sumner
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City of Sumner

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Walke	Mayor	January 2016
Dave Meighan	Mayor Pro Tem	January 2014
Douglas Daniels	Council Member	January 2014
Ed Adams	Council Member	January 2016
Darren Paulus	Council Member	January 2014
Linda Meier	Council Member	January 2016
Lisa Oberbroeckling	City Clerk	Indefinite
David Lease	Public Works Director	Indefinite
Michael Stoessel	Treasurer	up to Nov. 30
Diane Weltner	Treasurer	Dec. 1 to Indefinite
Pat Dillon	City Attorney	Indefinite
Dennis Cain	Chief of Police	Indefinite
Tim Duhrkopf	Fire Chief	Indefinite



SHAFFER COMPANY, P.C.

Certified Public Accountant

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Member AICPA and ISCPA

Independent Auditor's Report

**To the Honorable Mayor and
Members of the City Council:**

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Sumner, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Sumner as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sumner's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 13 and 34 through 36 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 12, 2014 on my consideration of City of Sumner's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Sumner's internal control over financial reporting and compliance.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sumner provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 39.8%, or approximately \$589,000, from fiscal 2012 to fiscal 2013.
- Disbursements increased 19.2%, or approximately \$292,000, in fiscal 2013 from fiscal 2012. Maintenance to the water tower made up most of this increase.
- The City's total cash basis net position increased 0.6%, or approximately \$12,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$62,700 and the cash basis net position of the business type activities decreased by approximately \$50,700.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and refuse pickup and transportation to the county owned landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out to those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and sanitation funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

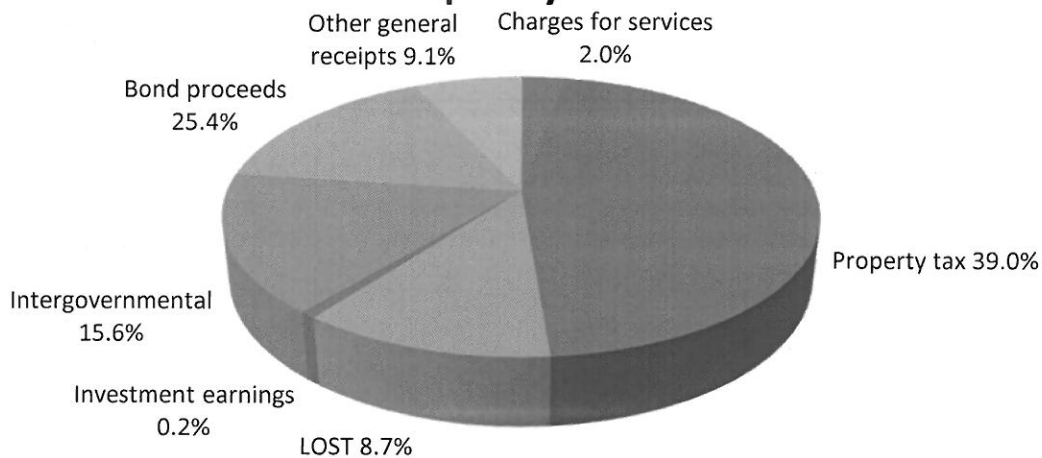
Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

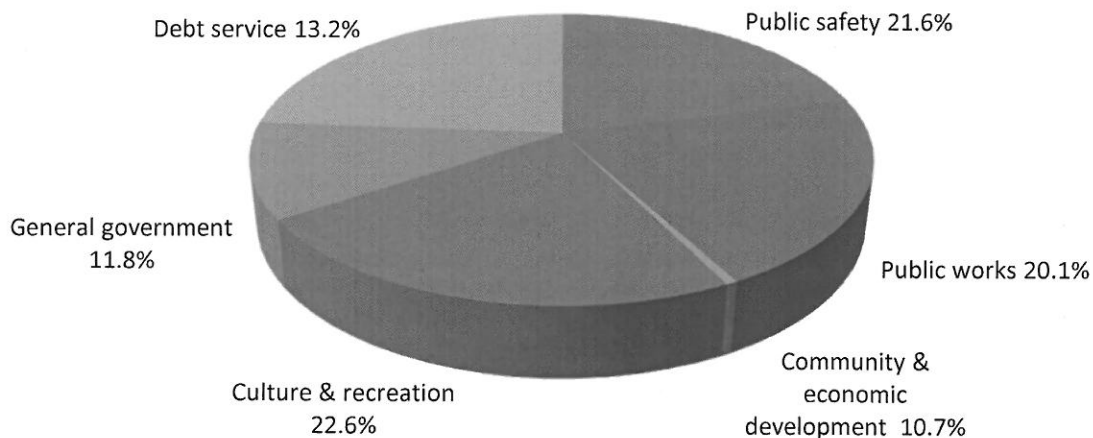
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$1.282 million to \$1.345 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)				
	Year ended June 30,			
	2013	2012	2011	
Receipts:				
Program receipts:				
Charges for services	\$ 42	52	45	
General receipts:				
Property tax	806	740	722	
Local option sales tax	180	186	183	
Unrestricted investment earnings	5	7	11	
Intergovernmental	324	378	251	
Bond Proceeds	525	0	0	
Other general receipts	188	118	112	
Total receipts	2,070	1,481	1,324	
Disbursements:				
Public safety	392	374	322	
Public works	364	246	323	
Health & social services	0	0	0	
Culture & recreation	411	390	351	
Community & economic development	193	172	7	
General government	214	180	162	
Debt service	239	159	366	
Capital projects	0	0	0	
Total disbursements	1,813	1,521	1,531	
Change in cash basis net position before transfers	257	(40)	(207)	
Transfers, net	(194)	0	0	
Change in cash basis net position	63	(40)	(207)	
Cash basis net position beginning of year	1,282	1,322	1,529	
Cash basis net position end of year	\$ 1,345	1,282	1,322	

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 39.8%, or \$589,000. The total cost of all programs and services increased by approximately \$292,000, or 19.2%.

The City increased property tax rates from \$13.003 per \$1,000 of taxable valuation in 2012 to \$13.043 for 2013. Property tax receipts, excluding tax increment financing (TIF), were \$694,700 for 2013, an increase of \$18,400 or 2.7%. Taxes raised from TIF increased from \$64,200 in 2012 to \$111,500 in 2013, a \$47,300 change.

The cost of all governmental activities this year was \$1.814 million compared to \$1.521 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$1.448 million because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest.

BUSINESS TYPE ACTIVITIES

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)				
		Year ended June 30,		
		2013	2012	2011
Receipts:				
Program receipts:				
Charges for services:				
Water	\$	170	168	175
Sewer		393	370	369
Sanitation		194	195	208
General receipts				
Unrestricted interest on investments		1	1	2
Intergovernmental		0	0	0
Bond & Loan proceeds		0	0	0
Other general receipts		68	24	28
Total receipts		826	758	782
Disbursements:				
Water		496	140	208
Sewer		409	370	424
Sanitation		166	205	193
Total disbursements		1,071	715	825
Change in cash basis net position before transfers		(245)	43	(43)
Transfers, net		194	0	0
Change in cash basis net position		(51)	43	(43)
Cash basis net position beginning of year		827	784	827
Cash basis net position end of year		\$ 776	827	784

Total business type activities receipts for the fiscal year were \$826,000 compared to \$758,000 last year. The cash balance decreased by approximately \$51,000 from the prior year. Total disbursements for the fiscal year increased by 49.8% to a total of \$1,071,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sumner completed the year, its governmental funds reported a combined fund balance of \$1.345 million, an increase of \$63,000 above last year's total of \$1.282 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$163,500 from the prior year to \$484,000.
- The Road Use Tax Fund cash balance decreased by \$144,300 to \$173,300 during the fiscal year. The City intends to use this money to upgrade the condition of all the City's roads.
- At the end of the fiscal year, the cash balance of the Special Revenue Fund (Employees' Benefit) was \$41,100, a decrease of \$26,000 from the previous year.
- The Special Revenue Fund (Local Option Sales Tax) cash balance increased by \$50,200 to \$474,300 during the fiscal year. This fund is being allowed to grow in order to fund future projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the propriety funds, the City reported a combined fund balance of \$776,000, an decrease of approximately \$51,000 when compared to last year's total of \$827,000. The following are the major reasons for the changes in fund balances from the prior year.

- The Water Fund cash balance decreased by \$91,400 to \$210,600.
- The Sewer Fund cash balance increased by \$5,500 to \$417,300.
- The Sanitation Fund cash balance increased by \$35,000 to \$148,000.

BUDGETARY HIGHLIGHTS

The City amended its budget once during the year. This amendment was approved on May 6, 2013 to provide for additional revenues and disbursements in certain City departments. The increase in the budget amendment was for the purchase of a police vehicle, housing rehab project expenditures, repairs and other additional costs. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$17,200 more than budgeted. This was primarily due to the City receiving more in miscellaneous receipts than budgeted.

While total disbursements were \$150,200 under the amended budget, disbursements for the business type activities exceeded its amended budget.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$2.308 million in bonds and other long-term debt, compared to approximately \$2.141 million last year, as shown below:

		Outstanding Debt at Year-End (Expressed in Thousands)		
		Year ended June 30,		
		2013	2012	2011
General obligation bonds - Streetscape & Refunding	\$	55	205	350
GO bonds - Water tower maintenance & Econ Dev		452	0	0
Sewer revenue bonds		1,801	1,936	2,066
Total	\$	2,308	2,141	2,416

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property, excluding agriculture land valuations and before rollback, within the City's corporate limits. The City's outstanding general obligation debt of \$507,000 is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sumner's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase.

These indicators were taken into account when adopting the budget for fiscal year 2014. The City adopted property tax rates of \$13.689 per \$1,000 of taxable valuation for 2014 compared to \$13.043 for 2013. Budgeted revenues for fiscal year 2014 is \$2.298 million, a decrease of 2.4% under the final 2013 budget. No bonds are expected to be issued in 2014. Budgeted disbursements are expected to decrease by approximately \$559,400 when compared to the final 2013 budget for a total of \$2.475 million for fiscal year 2014.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$177,200 by the end of the City's next fiscal year end.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Oberbroeckling, City Clerk, 105 East First Street, Sumner, Iowa.

CITY OF SUMNER
Basic Financial Statements

City of Sumner

Statement of Activities and Net Position - Cash Basis

As of and for the year ended June 30, 2013

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Restricted Interest	Capital Grants Restricted Interest
Governmental activities:				
Public safety	\$ 391,980	0	5,100	0
Public works	364,138	0	200,566	0
Culture and recreation	411,075	42,250	39,010	0
Community & economic development	193,643	0	79,020	0
General government	213,794	0	0	0
Debt service	239,030	0	0	0
Capital projects	0	0	0	0
Total governmental activities	1,813,660	42,250	323,696	0
Business type activities				
Water	496,348	170,052	0	0
Sewer	408,601	392,462	0	0
Sanitation	165,837	194,041	0	0
Total business type activities	1,070,786	756,555	0	0
Totals	\$ 2,884,446	798,805	323,696	0
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable - Cemetery perpetual care				
Expendable:				
Urban renewal purposes				
Debt service				
Streets				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements

Exhibit A

	Governmental Activities	Business Type Activities	Total
	(386,880)	0	(386,880)
	(163,572)	0	(163,572)
	(329,815)	0	(329,815)
	(114,623)	0	(114,623)
	(213,794)	0	(213,794)
	(239,030)	0	(239,030)
	0	0	0
	(1,447,714)	0	(1,447,714)
	0	(326,296)	(326,296)
	0	(16,139)	(16,139)
	0	28,204	28,204
	0	(314,231)	(314,231)
	(1,447,714)	(314,231)	(1,761,945)
	694,692	0	694,692
	111,451	0	111,451
	179,508	0	179,508
	4,518	1,383	5,901
	525,000	0	525,000
	189,135	68,282	257,417
	(193,842)	193,842	0
	1,510,462	263,507	1,773,969
	62,748	(50,724)	12,024
	1,281,979	826,685	2,108,664
\$	1,344,727	775,961	2,120,688
\$	60,899	0	60,899
	29,139	0	29,139
	0	100,000	100,000
	178,253	0	178,253
	515,361	0	515,361
	561,075	675,961	1,237,036
\$	1,344,727	775,961	2,120,688

City of Sumner

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue	
	Road Use	
	General	Tax
Receipts:		
Property tax	\$ 530,990	0
Tax increment financing (TIF) receipts	0	0
Other city tax	0	0
Licenses and permits	9,271	0
Use of money and property	2,715	0
Intergovernmental	50,463	194,213
Charges for services	42,250	0
Miscellaneous	178,402	0
Total receipts	814,091	194,213
	1,339,091	
Disbursements:	(525,000)	
Operating		
Public safety	304,624	0
Public works	34,097	293,405
Health & social services	0	0
Culture & recreation	372,753	0
Community & economic development	136,500	0
General government	184,572	0
Debt service	0	0
Capital projects	0	0
Total disbursements	1,032,546	293,405
Excess of receipts over disbursements	(218,455)	(99,192)
Other financing sources (uses):		
Bond Proceeds	525,000	0
Operating transfers in	131,264	0
Operating transfers out	(274,264)	(45,152)
Total other financing sources (uses)	382,000	(45,152)
Net changes in cash balances	163,545	(144,344)
Cash balances beginning of year	320,394	322,597
Cash balances end of year	\$ 483,939	178,253
Cash Basis Fund Balances		
Nonspendable - Cemetery perpetual care	\$ 0	0
Restricted for:		
Urban renewal purposes	0	0
Debt service	0	0
Streets	0	178,253
Other purposes	0	0
Assigned	265,382	0
Unassigned	218,557	0
Total cash basis fund balances	\$ 483,939	178,253

Exhibit B

Special Revenue		Debt Service	Other Nonmajor Governmental		Total
Employees' Benefits	Local Option Sales Tax		Funds		
163,702	0	0	0		694,692
0	0	0	111,451		111,451
0	179,508	0	0		179,508
0	0	0	0		9,271
0	916	0	887		4,518
0	0	0	79,020		323,696
0	0	0	0		42,250
0	0	0	1,462		179,864
163,702	180,424	0	192,820		1,545,250
87,356	0	0	0		391,980
36,636	0	0	0		364,138
0	0	0	0		0
36,540	1,782	0	0		411,075
0	0	0	57,143		193,643
29,222	0	0	0		213,794
0	0	239,030	0		239,030
0	0	0	0		0
189,754	1,782	239,030	57,143		1,813,660
(26,052)	178,642	(239,030)	135,677		(268,410)
0	0	0	0		525,000
0	2,800	239,030	0		373,094
0	(131,264)	0	(116,256)		(566,936)
0	(128,464)	239,030	(116,256)		331,158
(26,052)	50,178	0	19,421		62,748
67,111	424,124	0	147,753		1,281,979
41,059	474,302	0	167,174		1,344,727
0	0	0	60,899		60,899
0	0	0	29,139		29,139
0	0	0	0		0
0	0	0	0		178,253
41,059	474,302	0	0		515,361
0	0	0	77,136		342,518
0	0	0	0		218,557
41,059	474,302	0	167,174		1,344,727

Exhibit C

City of Sumner

Statement of Cash Receipts, Disbursement and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2013

		Enterprise Funds		
	Water	Sewer	Sanitation	Total
Operating receipts:				
Charges for service	\$ 170,052	392,462	194,041	756,555
Operating disbursements:				
Business type activities	496,348	210,681	165,837	872,866
Excess (deficiency) of operating receipts over (under) operating disbursements	(326,296)	181,781	28,204	(116,311)
Non-operating receipts (disbursements)				
Use of money and property	339	925	119	1,383
Intergovernmental	0	0	0	0
Miscellaneous	40,762	20,800	6,720	68,282
Debt service	0	(197,920)	0	(197,920)
Capital projects	0	0	0	0
Net non-operating receipts (disbursement)	41,101	(176,195)	6,839	(128,255)
Excess (deficiency) of receipts over (under) disbursements	(285,195)	5,586	35,043	(244,566)
Operating transfers in (out), net	193,842	0	0	193,842
Net changes in cash balances	(91,353)	5,586	35,043	(50,724)
Cash balances beginning of year	301,909	411,739	113,037	826,685
Cash balances end of year	\$ 210,556	417,325	148,080	775,961
Cash Basis Fund Balances				
Restricted for debt service	\$ 0	100,000	0	100,000
Unassigned	301,909	311,739	113,037	726,685
Total cash basis fund balances	\$ 301,909	411,739	113,037	826,685

See notes to financial statements.

CITY OF SUMNER
Notes to the Financial Statements

City of Sumner
Notes of Financial Statements
June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Sumner is a political subdivision of the State of Iowa located in Bremer and Fayette Counties. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements and general administrative service. The City also provides water, sewer and sanitation for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Sumner has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete.

City of Sumner
Notes of Financial Statements
June 30, 2013

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position are reported in two categories:

Nonexpendable restricted net position are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Sumner
Notes of Financial Statements
June 30, 2013

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursement, the fixed charges and the capital improvement costs that are not paid for other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account of the collection of the one percent sales tax and its uses.

The Employees' Benefits Fund is used to account for the collection of payroll taxes and provide social security and medicare, IPERS, and health insurance benefits to its employees.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation and maintenance of the City's sanitation system.

City of Sumner
Notes of Financial Statements
June 30, 2013

C. Measurement Focus and Basis of Accounting

The City of Sumner maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the business type activities.

City of Sumner
Notes of Financial Statements
June 30, 2013

(2) Deposits and Investments

The City's deposits and investments at June 30, 2013, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 127,000	11,295	139,000	58,533	266,000	69,828
2015	73,000	7,600	143,000	54,015	216,000	61,615
2016	74,000	6,140	148,000	49,367	222,000	55,507
2017	76,000	4,660	153,000	44,558	229,000	49,218
2018	78,000	3,140	158,000	39,585	236,000	42,725
2019-2023	79,000	1,580	869,000	117,552	948,000	119,132
2024	0	0	191,000	6,208	191,000	6,208
Totals	\$ 507,000	34,415	1,801,000	369,818	2,308,000	404,233

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

City of Sumner

Notes of Financial Statements

June 30, 2013

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$150,805, payable through June 2014. For the current year, interest paid and total TIF receipts were \$9,984 and \$64,156, respectively. These bonds are part of the streetscape and refunding bonds issued in August of 2005.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3.1 million in sewer revenue notes issued in October 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require a majority of net sewer receipts. The total principal and interest remaining to be paid on the notes is \$2,170,818. For the current year, principal and interest paid and total customer net receipts were \$197,920 and \$181,781, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

(4) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary except for police employees, in which case the percentages are 6.84% and 10.27%, respectively. These rates tend to change from year to year. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$45,526, \$43,518, and \$39,576, respectively, equal to the required contributions for each year.

City of Sumner
Notes of Financial Statements
June 30, 2013

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 29,021
Sick Leave *	54,354
Total	\$ 83,375

* Sick leave is not payable upon termination, retirement or death.

This liability has been computed based on rates of pay as of June 30, 2013.

(6) **Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2013, disbursements in the business type activities exceeded the amount budgeted.

City of Sumner
Notes of Financial Statements
June 30, 2013

(7) Risk Management

The City of Sumner is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Related Party Transactions

The City had business transactions between the City and the City's officials and employees totaling \$6,881 during the year ended June 30, 2013.

(9) Hospital Facilities Revenue Bonds

The City has issued \$18 million of hospital facilities revenue bonds under the provisions of Chapter 419 of the Code of Iowa during the fiscal year ended June 30, 2013. The bond and related interest are payable solely from the revenues derived from the project and the bond and interest do not constitute liabilities of the City.

(10) Subsequent Events

The City received a letter in regards to its Sewer Revenue Bonds issued on October 27, 2003, stating that the interest will be lowered from 3% to 1.75% effective December 1, 2013. With service fee of .25%, that brings the effective rate to 2%, down from 3.25%. The City will realize substantial savings in interest over the next eleven years.

City of Sumner
Notes of Financial Statements
June 30, 2013

(12) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to:	Transfer from:	Amount
General	Special revenue Local option sales tax	\$ 131,264
Special revenue Local option sales tax	General	2,800
Debt service	Special revenue Road use tax	45,152
Debt service	Capital projects Streetscape	2,452
Debt service	Special revenue Urban renewal tax increment	125,268
Debt service	Enterprise Water	66,158
Special revenue Housing project	General	11,464
Enterprise Water	General	260,000
Total		\$ 644,558

CITY OF SUMNER
Required Supplementary Information

City of Sumner

Budgetary Comparison Schedule
Of Receipts, Disbursements, and Change in Balances
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 694,692	0
Tax increment financing	111,451	0
Other city tax	179,508	0
Licenses & permits	9,271	0
Use of money & property	4,518	1,383
Intergovernmental	323,696	0
Charges for services	42,250	756,555
Special assessments	0	0
Miscellaneous	179,864	68,282
Total receipts	1,545,250	826,220
Disbursements:		
Public safety	391,980	0
Public works	364,138	0
Health & social services	0	0
Culture & recreation	411,075	0
Community & economic development	193,643	0
General government	213,794	0
Debt service	239,030	0
Capital projects	0	0
Business type activities	0	1,070,786
Total disbursements	1,813,660	1,070,786
Excess of receipts over disbursements	(268,410)	(244,566)
Other financing sources, net	331,158	193,842
Excess of receipts and other financing sources over disbursements and other financing uses	62,748	(50,724)
Balances beginning of year	1,281,979	826,685
Balances end of year	\$ 1,344,727	775,961

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
694,692	696,374	696,374	(1,682)	0%
111,451	116,795	116,795	(5,344)	-5%
179,508	188,529	209,529	(30,021)	-14%
9,271	7,275	7,275	1,996	27%
5,901	58,000	58,000	(52,099)	-90%
323,696	309,600	326,100	(2,404)	-1%
798,805	820,225	844,525	(45,720)	-5%
0	800	1,600	(1,600)	-100%
248,146	34,500	94,052	154,094	164%
2,371,470	2,232,098	2,354,250	17,220	1%
391,980	354,003	432,740	40,760	9%
364,138	253,350	383,850	19,712	5%
0	0	0	0	
411,075	439,400	472,400	61,325	13%
193,643	90,000	218,000	24,357	11%
213,794	173,325	215,325	1,531	1%
239,030	164,295	250,295	11,265	5%
0	0	1,500	1,500	0%
1,070,786	815,555	1,060,555	(10,231)	-1%
2,884,446	2,289,928	3,034,665	150,219	5%
(512,976)	(57,830)	(680,415)		
0	0	534,000		
(512,976)	(57,830)	(146,415)		
2,108,664	2,108,663	2,108,663		
1,595,688	2,050,833	1,962,248		

City of Sumner

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Disbursements for the Proprietary Funds are required to be budgeted. During the year, a budget amendment increased budgeted disbursements by \$744,737. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the business type activities.

CITY OF SUMNER

CITY OF SUMNER
Other Supplementary Information

City of Sumner

Schedule 1

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue		Capital Projects		Permanent	
	Urban Renewal Tax Increment	Housing Project	Streetscape	Project Reach	Cemetery Perpetual Care	Total
Receipts:						
Tax Increment Financing (TIF)	\$ 111,451	0	0	0	0	111,451
Use of money and property	0	0	3	490	394	887
Intergovernmental	0	79,020	0	0	0	79,020
Miscellaneous	0	0	862	0	600	1,462
Total receipts	111,451	79,020	865	490	994	192,820
Disbursements:						
Culture & recreation	0	0	0	0	0	0
Community & economic development	0	57,143	0	0	0	57,143
Total disbursements	0	57,143	0	0	0	57,143
Excess (deficiency) of receipts over (under) disbursements	111,451	21,877	865	490	994	135,677
Operating transfers in (out), net	(125,268)	11,464	(2,452)	0	0	(116,256)
Net change in cash balances	(13,817)	33,341	(1,587)	490	994	19,421
Cash balances beginning of year	33,626	(33,341)	1,695	76,538	69,235	147,753
Cash balances end of year	\$ 19,809	0	108	77,028	70,229	167,174
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ 0	0	0	0	60,898	60,898
Restricted for other purposes	19,809	0	0	0	9,331	29,140
Assigned for other purposes	0	0	108	77,028	0	77,136
Unassigned	0	0	0	0	0	0
Total cash basis fund balances	\$ 19,809	0	108	77,028	70,229	167,174

See accompanying independent auditor's report.

CITY OF SUMNER
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Streetscape & Refunding	August 1, 2005	3.5 to 4.3%	\$ 1,270,000
Water tower & economic development	September 19, 2012	2%	525,000
Total General obligation bonds and notes			
Revenue bonds:			
Sewer revenue bonds	October 27, 2003	3.25%	\$ 3,100,000
Totals			

See accompanying independent auditor's report

Schedule 2

Balance Beginning of Year	Issued during Year	Redeemed during Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
205,000	0	150,000	55,000	8,180 *	188
0	525,000	73,000	452,000	7,350	753
205,000	525,000	223,000	507,000	15,530	941
1,936,000	0	135,000	1,801,000	62,920	4,878
\$ 2,141,000	525,000	358,000	2,308,000	78,450	5,819

* Does not include loan fees of \$500

Schedule 3

City of Sumner

Bond and Note Maturities
June 30, 2013

General Obligation Bonds					
Streetscape & Refunding \$1,270,000 Issued August 1, 2005			Water tower maintenance & Economic Development \$525,000 Issued September 19, 2012		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
2014	3.950%	\$ 55,000	2.000%	\$ 72,000	\$ 127,000
2015			2.000%	73,000	73,000
2016			2.000%	74,000	74,000
2017			2.000%	76,000	76,000
2018			2.000%	78,000	78,000
2019			2.000%	79,000	79,000
Total		\$ 55,000		\$ 452,000	\$ 507,000

Sewer Revenue Bonds \$3,100,000 Issued October 27, 2003		
Year Ending June 30,	Interest Rates	Amount
2014	3.250%	139,000
2015	3.250%	143,000
2016	3.250%	148,000
2017	3.250%	153,000
2018	3.250%	158,000
2019	3.250%	163,000
2020	3.250%	168,000
2021	3.250%	174,000
2022	3.250%	179,000
2023	3.250%	185,000
2024	3.250%	191,000
Total		\$ 1,801,000

Interest rate of 3% plus a service fee of .25% for a total of 3.25%

See accompanying independent auditor's report

CITY OF SUMNER

City of Sumner

Schedule 4

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds

For the Last Ten Years ended June 30, 2013

	2013	2012	2011	2010	2009
Receipts					
Property tax	\$ 694,692	676,255	655,032	631,115	610,021
Tax Increment Financing (TIF)	111,451	64,156	67,277	74,877	74,360
Other city tax	179,508	186,051	182,789	192,909	185,125
License & permits	9,271	8,375	5,396	5,151	5,865
Use of money & property	4,518	7,410	11,474	16,643	23,269
Intergovernmental	323,696	378,148	251,378	243,576	216,954
Charges for services	42,250	51,725	44,535	43,805	40,975
Bond proceeds	525,000	0	0	0	0
Miscellaneous	179,864	109,073	105,662	102,718	90,953
Total receipts	\$ 2,070,250	1,481,193	1,323,543	1,310,794	1,247,522
Disbursements:					
Operating:					
Public Safety	\$ 391,980	373,595	321,623	273,850	275,775
Public Works	364,138	246,301	322,910	231,528	212,305
Health & Social Services	0	0	0	0	3,600
Culture & Recreation	411,075	389,894	351,022	324,371	337,136
Community & Economic Development	193,643	172,491	7,372	0	0
General Government	213,794	180,112	161,679	179,444	159,297
Debt Service	239,030	159,263	365,597	405,564	217,656
Capital Projects	0	0	0	0	0
Total Disbursements	\$ 1,813,660	1,521,656	1,530,203	1,414,757	1,205,769

2009	2008	2007	2006	2005	2004
610,021	531,673	581,249	571,683	524,802	517,750
74,360	205,281	104,111	32,267	146,895	178,169
185,125	186,583	162,488	146,654	176,797	132,625
5,865	4,811	5,081	6,920	5,379	7,247
23,269	54,826	104,161	65,698	30,252	10,353
216,954	222,619	217,118	218,377	215,032	321,617
40,975	37,155	39,470	46,968	54,101	51,476
0	0	0	1,270,000	0	285,000
90,953	109,520	89,653	239,856	90,031	120,546
1,247,522	1,352,468	1,303,331	2,598,423	1,243,289	1,624,783

275,775	270,317	385,227	277,381	316,433	321,092
212,305	195,663	207,944	234,852	256,823	166,956
3,600	0	0	0	0	0
337,136	284,308	276,250	257,385	242,507	313,944
0	0	0	0	4,401	80,000
159,297	155,188	130,564	159,763	169,339	169,721
217,656	209,282	209,408	633,691	419,263	183,251
0	0	37,253	713,713	281,271	64,130
1,205,769	1,114,758	1,246,646	2,276,785	1,690,037	1,299,094

CITY OF SUMNER

CITY OF SUMNER

Independent Auditor's Report
on Internal Control
over Financial Reporting
and on Compliance
and Other Matters Based
on an Audit of Financial Statements
Performed in Accordance
with Government Auditing Standards



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

**To the Honorable Mayor and
Members of the City Council:**

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Sumner, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated March 12, 2014. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Sumner's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sumner's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Sumner's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Sumner's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sumner's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Sumner's Responses to Findings

City of Sumner's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. City of Sumner's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Sumner during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 12, 2014

City of Sumner
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose a non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

II-A-13 Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all sometimes done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Sumner
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements, Continued:

II-B-13 Preparation of Financial Statements – Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – I recognize that with a limited number of office employees, preparation of the financial statements with its footnotes and exhibits is difficult. The City should obtain additional knowledge on generally accepted accounting principles through reading relevant accounting literature and attending classes.

Response – The City will obtain additional knowledge on generally accepted accounting principles in any way possible that is economically feasible, in order to improve the ability to prepare and take responsibility for the financial statements.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-13 Certified Budget - Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the business type activities. Chapter 384.18 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended as required, if applicable.

Conclusion - Response accepted.

III-B-13 Questionable Disbursements - No disbursements were noted for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Sumner

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part III: Other Findings Related to Statutory Reporting, Continued:

III-D-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-E-13 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

III-F-13 Business Transactions - Business transactions between the City and City officials or employees are summarized as follows:

Name, title, and business connection	Transaction description	Amount
Roger Burgart, Employee	Spraying	\$2,100
Dave Meighan, Council member Meighan Tiling & Escavation	Backhoe work	\$375
Douglas Daniesl, Council member Vanguard Publishing, LLC d/b/a Sumner Gazette	Legal publications & printing	\$4,406

The transactions above do not appear to represent conflicts of interest.

III-G-13 Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-13 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-13 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

City of Sumner

Audit Staff

This audit was performed by:

Roger L. Shaffer, C.P.A., Owner & Manager of the Firm

SHAFFER COMPANY, P.C.

A handwritten signature in blue ink, appearing to read 'R. Shaffer', with a horizontal line extending to the right.

ROGER L. SHAFFER
Certified Public Accountant